

US gets zero on free trade



PAM SLATER

International trade is an engine for U.S. economic growth. Exports ensure job growth and security for American workers. Imports provide consumers with a fantastic selection of goods at competitive prices, and support hundreds of thousands of manufacturing and service jobs. Americans benefit far more from open trade than from imposing artificial limits to “protect” U.S. jobs.

There are, however, still a few U.S. laws that can be used to limit trade. One punishes a practice called “dumping,” defined as selling in the U.S. at average prices that are lower than non-U.S. prices or production costs plus a profit (or “normal value”). The Commerce Department decides whether dumping has taken place, and if it has, how much below normal value U.S. prices are. The difference between U.S. prices and foreign values is the dumping margin.

U.S. and international law allow imposition of a duty, or tax, equal to the dumping margin. If the Commerce Department finds that Chinese widgets are being sold in the U.S. for 25 percent less than in China, and the International Trade Commission decides the dumping has hurt the U.S. widget industry, the U.S. will impose a tax of 25 percent on Chinese imports. In theory, this eliminates any unfair Chinese advantage. Sounds fair enough, doesn't it?

Unfortunately, it's not that simple. The U.S. and other countries have agreed to rules saying that countries are supposed to compare the U.S. prices and normal value of *all* products being investigated. This should mean that if there are U.S. prices that are *higher* than normal values, they

should be counted along with those that may be lower.

But in the upside-down world of dumping, nothing is what it seems. Instead of giving a foreign company credit when it sells its product in the U.S. at prices higher than those overseas, the Commerce Department says the margin on these “good” sales is zero. The result is easy to see. If the “good” sales margins were included at their actual levels, they would offset margins on lower-priced sales. By making the margin on all “good” sales zero, zeroing ensures that no credit is given to foreign imports that are sold for more in the U.S. than they are in their home country.

In some cases, the only reason there is any dumping margin at all is because of zeroing. In many other cases, the dumping margin is much higher than it would otherwise be. Zeroing defies logic, is unfair and results in a distinctly *uneven* playing field.

Things get even worse. The World Trade Organization has twice ruled that zeroing violates rules applying to dumping cases — rules that the U.S. helped write. The first ruling involved the European Union's use of zeroing; when the EU lost its case, it abandoned zeroing.

The U.S. also lost a WTO case on zeroing recently, but it has refused to abandon the practice. In its defense, the U.S. says the WTO ruling only applies to one specific case. But zeroing works the same way in every case. The EU and Japan have already challenged the use of zeroing in 37 prior cases, and Thailand has challenged the U.S. for its use of zeroing in its calculation of anti-dumping duties on shrimp. In the wake of the devastating

tsunami that caused extensive damage to the shrimp industries of India and Thailand, the ITC is considering an unusual “changed-circumstances” review that could potentially lift the new duties. Yet had the U.S. not relied on zeroing in the first place, these two countries would likely never have been found to be dumping shrimp.

Inflating margins using zeroing not only violates international trade law, but harms U.S. consumers. Tariffs are taxes on imports that American consumers pay through higher prices. Intentionally inflating duties on these products by using zeroing is dishonest, illegal and a slap in the face to U.S. taxpayers, consumers and workers in industries that must import parts and materials.

The U.S. needs to recognize that ignoring the rules of international trade to gain a temporary advantage for a few companies hurts far more Americans than it helps. Beyond the damages at home, refusing to end zeroing seriously undermines U.S. leadership in world trade. How can Americans expect our trading partners to play by WTO rules if we refuse to act responsibly when we lose a case? It is only a matter of time before the threat of new tariffs on U.S. exports forces the end of zeroing, but by then, the damage will be done.

The U.S. needs to act now if our trading partners — and Americans who depend on open trade — are to believe that U.S. leaders really mean it when they call for fair trade.

Pam Slater is legislative director of Consumers for World Trade, a Washington advocacy group. She can be contacted at (202) 293-2944.